

## Agenda for yesterday

Vol. 5, No. 150, November 29, 1999

With the presidential election over, the time has come for harvesting the gains and distributing awards to participants of the victory that is known to have many "fathers", as opposed to failure that is always an "orphan". While continuing to celebrate, the winners of the election have to complete a number of tasks that have been shelved for quite a while but now may have a decisive impact on the distribution of power in this state.

### Shaping the "Parliamentary Majority"

The formation of the "parliamentary majority", much-wanted by the executive branch, is being made problematic due to the rivalry of several financially and politically strong factions - Oleksandr Volkov's "Vidrodzhennya rehioniv" ("Regional Renaissance"), Victor Medvedchuk's United Social Democrats, the People's Democratic Party and Victor Pinchuk's Trudova Ukraina ("Working Ukraine") - that made major contributions to Leonid Kuchma's presidential victory. Yet, there is nothing to suggest that the notorious "parliamentary majority" be being built for making the legislature a more effective law-making institution. Instead, the haste to produce the pro-Kuchma "parliamentary majority" in the nearest future looks to be motivated entirely by the desire to take part in the distribution of parliamentary seats.

Victor Medvedchuk explicitly stated that representatives of his faction had to be given seats in the would-be government for they had done "everything possible for Kuchma's victory, using for that all their resources and abilities." He even went further to suggest that President Kuchma also could consider joining the United Social Democrats.

Mr. Medvedchuk's ambitions are challenged by vocal but less influential (yet) factions: Yulia Tymoshenko's Batkivshchyna ("Fatherland"), Mykhailo Syrota's (or more correctly, Victor Pinchuk's) Trudova Ukraina, Yuri Kostenko's Rukh and Vitaly Kononov's Green Party. One of the inspirers of the new coalition Yulia Tymoshenko is always ready to remind that it was the Batkivshchyna that initiated the formation of the "parliamentary majority" that was expected to result in creation of a parliamentary coalition that would form the coalition government. Naturally, the Batkivshchyna also claims key seats in the new government. While Mrs. Tymoshenko was viewed as a possible candidate for the position of the Prime Minister, it appears that the best she could expect for the time being is the position of a vice prime minister, and not necessarily the one responsible for the economic block.

Today the distribution of forces in the parliament looks as follows: Speaker Oleksandr Tkachenko, whose credibility has been seriously undermined by the failure of his presidential campaign, but who is solidly backed by the Communists in exchange for his support for Symonenko; First Vice Speaker Adam Martyniuk, a Communist who so far has managed to find understanding with both Tkachenko and Medvedchuk and, hence, with their backing forces; and Vice Speaker of the parliament, leader of the United Socialist Democrats Victor Medvedchuk, whose influence in the parliament and on the president has been growing rapidly and it likely to increase if some insider reports about his possible alliance with Oleksandr Volkov prove to be true.

The presidential election outcome had a remarkable impact on "migration" of members of the parliament to a few "victorious" factions. After Leonid Kuchma's presidential victory and the collapse of the Hromada faction that once belonged to Pavlo Lazarenko, left-wingers have little chance to form a left majority. Likewise, the parliament's assorted "centrists" and divided and politically weak right-wingers have too different agendas and conflicting ambitions to form a steady majority.

Hence, the left-wing majority that was so convenient to blame for the parliament's inability to work "constructively" with the executive branch is gone. Instead, there are rather controversial non-left segments of the parliament that might form the "parliamentary majority" but are prevented from doing so by their own vested interests and the unfinished division of the power pie. Today there is a "constructive coalition" of the Batkivshchyna (31 MPs), Rukh (29 MPs), the Greens (23 MPs), and the Working Ukraine (22 MPs) claiming seats in some "coalition government" they expect to be formed. The second new alliance has been formed by Hennady Udovenko's part of the Rukh (16 MPs) and Victor Pynzenyk's Reforms-Congress (18 MPs). However, the real center of influence, money and power is with the groups that can claim direct involvement in Leonid Kuchma's presidential victory: the faction of the People's Democratic faction (29 MPs), the Social Democratic faction (32 MPs) and the Vidrodzhennya Rehioniv (28 MPs). Simple calculation shows that at least some of them must have been among 285 MPs who voted recently for the resolution that obliged the President to make his

inaugural oath in the house of parliament and not in the Ukraina national palace, spacious enough to sit some 3,000 distinguished guests invited for the ceremony and, therefore, chosen by the Presidential Administration. The simple controversy between the President and the legislature suggests that reaching agreement between the two branches, and, moreover, forming a steady pro-presidential majority that would vote alike in anonymous voting procedures may be as distant as before. President Leonid Kuchma has repeatedly stated that the parliamentary majority of centrists, right-wingers and some majoritarian "business MPs" will have to share responsibility in the state with the incumbent president. According to leaders of the executive branch, Communists are likely to confront the parliamentary majority, though some of them may be integrated in the process. Oleksandr Moroz is aware of the scarcity of chances that his party will be invited to the division of seats in the government, but argues he is prepared to support any of the government's actions if they are "for the good of the Ukrainian people". In the process of forming the parliamentary majority, Speaker Oleksandr Tkachenko may lose his seat (150 signatures of MPs will be enough to put the issue of no-confidence to the Speaker on the agenda, and 226 votes are needed to actually dismiss the Speaker). Another possible "casualty" is Prime Minister Valery Pustovoitenko.

#### Choosing a New Head of the Government

According to the Constitution, the Cabinet of Ministers resigns to the new president. Hence, as soon as the presidential election was over, power brokers that contributed to Leonid Kuchma's re-election began to try on positions that might be vacant shortly. Even more flavor to the intrigue was added by the president's obvious wish to see somebody other than his rival in the presidential race Speaker Oleksandr Tkachenko, who had withdrawn from the race to back Communist leader Petro Symonenko, to occupy the top parliamentary seat.

Although the president announced his intention to nominate Valery Pustovoitenko as his choice for the position of the Prime Ministers, experts are unanimous in viewing the move as the desire to dismiss Pustovoitenko with the parliament's hands. Though Mr. Pustovoitenko has collected 202 signatures of MPs in favor of giving him a new term in the country's top executive office, his chances to keep his chair remain slim. One of indirect indicators of the possible change in the top governmental office is that Oleksandr Volkov, currently one of the most influential architects of the executive branch, is more prepared to back head of the State Taxation Administration Mykola Azarov or the National Bank Governor Victor Yushchenko as a candidate for the position of the Prime Minister. However, the parliament may refuse to play the game and take no responsibility for the opposition to the President and his Prime Minister.

Other most often named possible candidates for the position of the Prime Minister include First Vice Prime Minister Anatoly Kinakh, Vice Prime Minister Serhiy Tihipko, Vice Speaker of the parliament Victor Medvedchuk (who also becomes one of the most likely candidates for the seat of the Speaker if Igor Sharov's initiative to dismiss Oleksandr Tkachenko develops) and leader of the Batkivshchyna faction, former ally of Pavlo Lazarenko and co-owner of the United Energy Systems of Ukraine Yulia Tymoshenko. While Victor Medvedchuk, named among the most likely candidates to be nominated for the premiership, may have enough influence to convince the president and even the parliament, given his ambitions for the next presidential election he may not want to occupy the seat of the head of the government and run Ukraine's ruined economy. The job of the prime minister, no matter who he or she is going to be, will be made difficult enough by the need to pay up the huge foreign and domestic debts and develop the country's economy in the context of the new budget, pushed by Yulia Tymoshenko. Also, his ambitions (if any) may not find understanding and support in other potential members of the "parliamentary majority": the Vidrodzhennya Rehioniv, the Trudova Ukraina and the Batkivshchyna. However, if neither "pro-executive" nor "anti-executive" majority is formed in the parliament, the Prime Minister may still be approved without much tension in case it is convinced that future loans - and, hence, much-needed cash for covering part of the foreign debt - depends on that.

#### Agenda for Yesterday

The first year after the presidential election is usually believed to be the most suitable for implementing radical economic reform, before the next election campaign makes politicians too keen to play on preferences of their potential voters. For Ukraine, the chance for economic recovery can be lost forever unless the president, who is not going to run again (under the current law) manages to focus on much-needed reform no matter what the appetites of his backers in the recent campaign are.

Some time ago one of Ukraine's reform-minded high-ranking officials, Vice Prime Minister for Economic Reform, formerly a successful banker Serhiy Tihipko went public with criticizing the slow pace of economic reform. He started with the call for changing the national currency policy that, in his words, "today is unrealistic, i.e., it is practically absent". Contrary to the claims of the National Bank Governor Victor Yushchenko who had defended the country's major economic achievement, the stability of its national currency, hryvnya, Serhiy Tihipko argued that "it is impossible to pursue the

currency policy through administrative methods and some prohibitions for a long time, as both the real economy sector and the banking system will feel that". Hence, it is likely that the policy of keeping the exchange rate within a set currency band will be dropped in favor of the floating rate.

Speaking at the Ukrainian-German symposium "Next 1,000 days: Economic Growth in Ukraine" earlier this month, Mr. Tihipko described the policy of "small steps" and compromise used to disguise the lack of economic reform as a "principle mistake" and the cause of Ukraine's lagging behind "civilized economies".

Probably, for the first time a decision-maker of that high rank publicly admitted that the government "often tried to present the desired for the real". He admitted that growing domestic debt, barter, unrealistic prices and administrative regulation of the economy had been by-products of measures used to achieve currency stabilization and curbing inflation.

Mr. Tihipko also criticized "clans" that received a variety of benefits and privileges at the expense of the national economy and called for implementing the reforms that had been "either not implemented, or profaned at the stage of implementation or not achieved the critical mass for creation of a new quality of the economic situation. His recipe for economic recovery included departure from the practice of state interference with the economy; budget support for selected enterprises, administrative regulation of prices and substitution of subsidies to producers of some goods with subsidies to needy individuals.

In summer, Tihipko disagreed with Valery Pustovoitenko who had rather optimistic view on Ukraine's economic condition. According to observers, Mr. Tihipko is either provoking his resignation or prepares play the role of an expression of pluralism and democracy and a vehement reformer for the West.

The economic reality behind the political intrigue is gloomy. Since the budget figures stopped being fulfilled through switching on the money-printing machine, the budget has never received more than 80 percent of the anticipated revenue. Probably, the answer to the "why?" question is simple: the mere approach to forming the budget as a wish-list and then searching for sources of funding of every wish is wrong.

The presidential election outcome is likely to bring conservation of the status quo, in which access to political power may be transformed into economic benefits, and political parties remain but decorations for financial-political-industrial-media groups.

As long as appropriations of the budget funds are made under political pressure in favor of financial-industrial interests that have skillful lobbyists in the parliament and the government, the mere idea of competition will be undermined. No company will be able to compete with a firm on unlimited "taxation vacation" provided by a friendly political power broker in exchange for some "interest". Hence, instead of being a stimulating instrument, the budget serves to put the burden on the productive sector.

Year after year, the government and the parliament take turns in announcing the possibility to discover some "additional sources of revenue", large enough to fill the traditional gap between the unrealistic planned revenue part of the budget - based more on wishful thinking rather than on accurate estimates and thorough account of resources - and the growing expenditure part. The problem is that when it becomes clear that the revenue less than the planned spending, it is the unreformed state-owned enterprises and agriculture, as well as pet branches that are seen as the priority.

On the one hand, Mrs. Tymoshenko's parliamentary Budget Committee amended the draft national budget in a way that its revenue part grows without obvious good reason by more than one-third; on the other hand, the government agreed - which itself is a rare case - seeking to adopt the budget - apparently, any budget! - on time and meet its commitments to the IMF at least in this aspect. Moreover, instead of defending its draft budget during the parliamentary debates, the Ministry of Finance began with statements that it was impossible to comply with specific budget items.

#### External Factor

No matter how much Ukraine's able and devoted foreign minister seeks to improve the country's image internationally on the eve of the adoption of the EU strategy towards Ukraine, its deteriorating economic condition will push Ukraine further into the "multi-vector" foreign policy. While it is commonly assumed that the dependence on a single source of strategic import for 30 to 35 percent threatens the country's national security, Ukraine's 80 percent dependence on Russia for gas prevents a balanced relationship between the two states. On the other hand, while both Ukraine and the West keep referring to Ukraine's strategic significance, Ukraine has been sliding steadily to the "grey zone" it has sought so much to avoid. For quite a while, the government and the West have followed a convenient pattern of bilateral relations, with Ukraine paying lip service to economic reform and democratization and the West pretending to believe it and turning the blind eye to the fact that its loans have been used

or purposes not envisaged in the agreements. However, it looks like the West begins to show signs of impatience with the stagnation and failures of the reform process.

The government's unclear position and the delay in approval of a new prime minister is connected to the forthcoming visit of the IMF director Michael Camdessus, expected to come to Kyiv on December 15-16, 1999 to discuss the strategy of IMF-Ukraine cooperation with Leonid Kuchma. Prime Minister Valery Pustovoitenko admitted that Ukraine would be unable to negotiate the restructuring of its US\$ 3.1 billion foreign debt unless the IMF provides it with EFF loans, suspended at the end of September. The negotiation is going to be a difficult one, as Ukraine has failed to comply with a number of financial criteria.